

§ 217.155

the adjusted carrying value of an equity exposure to an investment fund on a pro rata basis to different risk weight categories assigned according to subpart D of this part based on the investment limits in the fund's prospectus, partnership agreement, or similar contract that defines the fund's permissible investments. The risk-weighted asset amount for the Board-regulated institution's equity exposure to the investment fund equals the sum of each portion of the adjusted carrying value assigned to an exposure class multiplied by the applicable risk weight. If the sum of the investment limits for all exposure types within the fund exceeds 100 percent, the Board-regulated institution must assume that the fund invests to the maximum extent permitted under its investment limits in the exposure type with the highest risk weight under subpart D of this part, and continues to make investments in order of the exposure type with the next highest risk weight under subpart D of this part until the maximum total investment level is reached. If more than one exposure type applies to an exposure, the Board-regulated institution must use the highest applicable risk weight. A Board-regulated institution may exclude derivative contracts held by the fund that are used for hedging rather than for speculative purposes and do not constitute a material portion of the fund's exposures.

§ 217.155 Equity derivative contracts.

(a) Under the IMA, in addition to holding risk-based capital against an equity derivative contract under this part, a Board-regulated institution must hold risk-based capital against the counterparty credit risk in the equity derivative contract by also treating the equity derivative contract as a wholesale exposure and computing a supplemental risk-weighted asset amount for the contract under § 217.132.

(b) Under the SRWA, a Board-regulated institution may choose not to hold risk-based capital against the counterparty credit risk of equity derivative contracts, as long as it does so for all such contracts. Where the equity derivative contracts are subject to a qualified master netting agreement, a Board-regulated institution using the

12 CFR Ch. II (1–1–14 Edition)

SRWA must either include all or exclude all of the contracts from any measure used to determine counterparty credit risk exposure.

§§ 217.166–217.160 [Reserved]

RISK-WEIGHTED ASSETS FOR OPERATIONAL RISK

§ 217.161 Qualification requirements for incorporation of operational risk mitigants.

(a) *Qualification to use operational risk mitigants.* A Board-regulated institution may adjust its estimate of operational risk exposure to reflect qualifying operational risk mitigants if:

(1) The Board-regulated institution's operational risk quantification system is able to generate an estimate of the Board-regulated institution's operational risk exposure (which does not incorporate qualifying operational risk mitigants) and an estimate of the Board-regulated institution's operational risk exposure adjusted to incorporate qualifying operational risk mitigants; and

(2) The Board-regulated institution's methodology for incorporating the effects of insurance, if the Board-regulated institution uses insurance as an operational risk mitigant, captures through appropriate discounts to the amount of risk mitigation:

(i) The residual term of the policy, where less than one year;

(ii) The cancellation terms of the policy, where less than one year;

(iii) The policy's timeliness of payment;

(iv) The uncertainty of payment by the provider of the policy; and

(v) Mismatches in coverage between the policy and the hedged operational loss event.

(b) *Qualifying operational risk mitigants.* Qualifying operational risk mitigants are:

(1) Insurance that:

(i) Is provided by an unaffiliated company that the Board-regulated institution deems to have strong capacity to meet its claims payment obligations and the obligor rating category to which the Board-regulated institution assigns the company is assigned a PD equal to or less than 10 basis points;

Federal Reserve System

§217.172

(ii) Has an initial term of at least one year and a residual term of more than 90 days;

(iii) Has a minimum notice period for cancellation by the provider of 90 days;

(iv) Has no exclusions or limitations based upon regulatory action or for the receiver or liquidator of a failed depository institution; and

(v) Is explicitly mapped to a potential operational loss event;

(2) Operational risk mitigants other than insurance for which the Board has given prior written approval. In evaluating an operational risk mitigant other than insurance, the Board will consider whether the operational risk mitigant covers potential operational losses in a manner equivalent to holding total capital.

§217.162 Mechanics of risk-weighted asset calculation.

(a) If a Board-regulated institution does not qualify to use or does not have qualifying operational risk mitigants, the Board-regulated institution's dollar risk-based capital requirement for operational risk is its operational risk exposure minus eligible operational risk offsets (if any).

(b) If a Board-regulated institution qualifies to use operational risk mitigants and has qualifying operational risk mitigants, the Board-regulated institution's dollar risk-based capital requirement for operational risk is the greater of:

(1) The Board-regulated institution's operational risk exposure adjusted for qualifying operational risk mitigants minus eligible operational risk offsets (if any); or

(2) 0.8 multiplied by the difference between:

(i) The Board-regulated institution's operational risk exposure; and

(ii) Eligible operational risk offsets (if any).

(c) The Board-regulated institution's risk-weighted asset amount for operational risk equals the Board-regulated institution's dollar risk-based capital requirement for operational risk determined under sections 162(a) or (b) multiplied by 12.5.

§§ 217.163–217.170 [Reserved]

DISCLOSURES

§ 217.171 Purpose and scope.

§§217.171 through 217.173 establish public disclosure requirements related to the capital requirements of a Board-regulated institution that is an advanced approaches Board-regulated institution.

§ 217.172 Disclosure requirements.

(a) A Board-regulated institution that is an advanced approaches Board-regulated institution that has completed the parallel run process and that has received notification from the Board pursuant to section 121(d) of subpart E of this part must publicly disclose each quarter its total and tier 1 risk-based capital ratios and their components as calculated under this subpart (that is, common equity tier 1 capital, additional tier 1 capital, tier 2 capital, total qualifying capital, and total risk-weighted assets).

(b) A Board-regulated institution that is an advanced approaches Board-regulated institution that has completed the parallel run process and that has received notification from the Board pursuant to section 121(d) of subpart E of this part must comply with paragraph (c) of this section unless it is a consolidated subsidiary of a bank holding company, savings and loan holding company, or depository institution that is subject to these disclosure requirements or a subsidiary of a non-U.S. banking organization that is subject to comparable public disclosure requirements in its home jurisdiction.

(c)(1) A Board-regulated institution described in paragraph (b) of this section must provide timely public disclosures each calendar quarter of the information in the applicable tables in §217.173. If a significant change occurs, such that the most recent reported amounts are no longer reflective of the Board-regulated institution's capital adequacy and risk profile, then a brief discussion of this change and its likely impact must be disclosed as soon as practicable thereafter. Qualitative disclosures that typically do not change each quarter (for example, a general